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Immigrants in Strategic Sectors of the U.S. Economy and America's Labor Shortage Crisis

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28

Introduction

The COVID-19 pandemic has had a range of negative impacts on the U.S. economy—from labor shortages and supply chain constraints to higher inflation and more. Of particular concern are the continued labor shortages in the U.S. economy, the focus of this paper. Without workers, companies cannot produce the quantity of goods and services the market demands. This affects both pricing and wages, adding inflationary pressures to the economy and ultimately impacting the nation's gross domestic product (GDP). Prices of goods and services are rising at their

fastest rate since the early 1980s (reaching a 40-year high in 2022), and this trend appears more persistent than many economists expected. Consequently, the U.S. economy is experiencing slow growth and high inflation, a phenomenon known as "slowflation."

Labor shortages are not new. Even before the pandemic, the United States was beginning to experience labor shortages, primarily due to an aging workforce, a decline in national fertility rates, and, more recently, a fall in immigration rates—all of which have led to fewer people participating in the national workforce. The pandemic has only exacerbated these ongoing trends. Labor shortages have also had secondary effects, including workers demanding better salaries and flexible working hours and even resigning, leading to a loss of expertise and the need to retrain new workers.

Moreover, recent reports show that there are more job openings in the United States than there are people willing to work. Indeed, there were 11.3 million job openings in February 2022 alone, but fewer than 6.3 million unemployed individuals still actively looking for work. To make matters worse, 4.3 million people left their jobs, and by the end of 2021, there were about 2 million fewer working-age immigrants compared to pre-pandemic trends. The sectors affected by labor shortages are also numerous, including accommodation and food services, construction, wholesale trade, and state and local government education, among others. This shortage has led to massive supply chain disruptions in the United States, and there is little to indicate that these disruptions will improve for any of these industries.

Clearly, one effective solution to labor shortages is to attract more workers—domestic and foreign—to the labor market. U.S. citizens would have to be incentivized through higher wages and benefits. Foreign workers, however, require a different kind of system. Since many foreign workers are willing to work, the solution would imply an increase in legal immigration, which decreased during the pandemic due to travel restrictions, a slowdown in immigrant processing services, and decreased mobility in general.

Given this state of affairs, this paper examines labor shortages in the United States, drawing attention to the role of immigrants in the U.S. labor market as a strategy to

overcome the shortage. It also offers data to support the importance of these workers and examines how the lack of immigrants in the U.S. labor market in 2020 and 2021 impacted the U.S. economy—as well as what the labor shortage may look like by 2030—under three scenarios. The first scenario considers the decrease in visas issued in 2020 and 2021 and explores the effects of this on the U.S. economy. In the second scenario, the economic impact of having about 2 million fewer working-age immigrants living in the United States in 2020 and 2021 is assessed. Finally, the third scenario estimates the total number of unfilled jobs the U.S. economy could have by 2030. Given these scenarios, the paper concludes that the only way to close the labor gap is to allow more foreign workers to participate in the U.S. labor market.

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